
SINGAPORE ECONOMIC OUTLOOK MARCH 2003 – EXTERNAL-LED CYCLICAL REBOUND CONTINUES, THOUGH MOMENTUM SLOWING

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S U M M A R Y

The economic recovery that started mid-year 2003 continues, with a consensus forecast of 5.5% real GDP growth in 2004. This would be Singapore's strongest growth since 2000. GDP rose by a higher-than-expected 11% quarter-on-quarter (q/q) and 4.9% year-on-year (y/y) in the final quarter of 2003, in the footsteps of the 16% q/q increase in the third quarter of 2003 (Q3 03) over the sharp fall in GDP seen in Q2. For 2003 as a whole, Singapore's GDP rose 1.1%, better than the official advance estimate of 0.8%, announced in January, but half that registered in 2002. Overall growth in 2003 was dragged down in the first half of 2003 (H1 2003) by the SARS epidemic and global uncertainty surrounding Iraq. Despite the rebound, Singapore remains the slowest growing major economy in East Asia.

The recovery continues to be led by external demand; domestic demand remains anemic. External demand rose 9.5% in 2003, with a strong rebound in the second half of the year in demand for Singapore's key manufactured exports – electronics, pharmaceuticals, and chemicals – as well as for trade-related services such as logistics and transport. Non-oil domestic exports (NODX) posted steady growth in Q4 2003, which in turn boosted returns for the year as a whole, with NODX in 2003 rising 15% y/y to a record S\$113 billion (US\$ 66.5 billion). Domestic exports of electronics rose 5.1%; external trade overall was up 9.6%, versus a 1.5% increase in 2002. While the U.S. remains Singapore's largest export market, exports to the U.S. have largely been flat, whereas exports to China are rising sharply (although many exports are components for Chinese products exported to the U.S.). Greater China (China plus Hong Kong) became Singapore's second largest trading partner in 2003, displacing the U.S.; electronics exports to China have been particularly buoyant. Aside from the trade-driven services sectors, financial services put in the best performance, propelled by strong activity in the stock exchange.

Leading indicators point to continued expansion, albeit at a slower level consistent with a maturing recovery. The Composite Leading Index, which tracks economic activity several quarters ahead continued to rise in Q4, but at a moderated path. Manufacturing output rose 5.8% y/y in January; the Purchasing Managers' Index suggests manufacturing expanded in February for the ninth consecutive month, albeit at a slower pace. Other indicators for the trade-dependent economy – the U.S. economic outlook, China's economic growth, and global semiconductor sales – suggest that the expansion in manufacturing output will continue at least through mid-2004. Business expectations are buoyant. The Government in late February raised its forecast for 2004 growth to between 3.5-5.5% (from the previous estimate of 3.0-5.0%). Most private analysts have also revised their projections upwards, to average 5.5% for 2004.

The employment market has improved in line with the recovery, with a net increase of 11,500 jobs created in Q4 2003 and manufacturing employment registering its first increase in three years. The unemployment rate among the resident labor force dropped to 5.0% at end-December 2003, from the record high of 6.1% in September 2003; the government is confident that the job market will strengthen further in the first half of 2004. Still, Singaporeans list unemployment as their top concern. Prices are stable: the consumer price index edged up 0.5% in 2003, and is up only 2.2% since 1998. In the financial markets, the Singapore Dollar (SGD) has weakened against currencies of its major trading partners in Q4, except against the U.S. dollar (USD). The Monetary Authority of Singapore (MAS) eased its monetary policy by shifting downwards the band within which it

manages the SGD against a trade-weighted basket of currencies of Singapore's major trading partners. Analysts do not expect MAS to revise significantly its current stand.

Note: This and other reports are posted on the Internet at: http://singapore.usembassy.gov/ep/reports_2003.shtml

(Singapore Dollar values are converted to U.S. Dollars at end-of-period exchange rates.)

STRONG RECOVERY RIDING ON EXTERNAL DEMAND

After a difficult first-half in 2003, Singapore's trade-dependent economy is in a maturing recovery. Final data for 2003 show the economy did better than expected, with GDP up 1.1% for the year, compared to the Government's earlier advance estimate of 0.8%. The economy grew 11% q/q on a seasonally adjusted annualized basis in Q4 2003, and 4.9% y/y. This compared to 16% q/q and 1.7% y/y in Q3 03, which followed the trough of the economic downturn in Q2, when the economy was pulled down sharply by the SARS epidemic and global uncertainty regarding Iraq.

Improved external demand – up 9.5% in 2003 – and a rebound in the global electronics industry (up 18% in 2003) have led the recovery. This has generated higher manufacturing output, which continues to be the principal engine of growth. Most of the growth in manufacturing came in the second half of 2003, with y/y growth of 3.3% in Q3 and 8.9% in Q4. Looking at trends, manufacturing output rose for the sixth straight month in January, up 18% m/m and 5.8% y/y; the Singapore Purchasing Managers' Index registered its ninth month of expansion in February, although growth momentum slowed. Singapore's manufacturing is dominated by electronics (31% of manufacturing value-added in 2003), pharmaceuticals, and chemicals.

Driven by manufacturing, external trade expanded by 9.6% in 2003, compared to 1.5% in 2002. Non-oil domestic exports (NODX) rose by even more – up 15% for the year, to a record S\$113 billion (US\$ 66.5 billion). Non-electronics exports were largely responsible for the growth, up 29% y/y, and now accounting for 47% of total NODX (versus 42% in 2002). The share of electronics in NODX showed a corresponding decline, but the good news was that, after two years of declines, electronics NODX grew 5% y/y in 2003, led by semiconductor and disk drive shipments. Strong export growth has continued into 2004, with NODX in January rising for the third straight month (January has generally always been a strong month for exports). On a seasonally-adjusted basis, the growth in NODX since November has been fairly constant.

The strength of external demand also registered in several key services sectors, including logistics, transport and travel-related services. The wholesale trade index registered strong growth in 2003, up 16.4% versus a 3.4% decline in 2002. Excluding petroleum, the index increased by 20.7%. The main contributors were the wholesaling of computers and telecom equipment, electronic components, household equipment, and chemicals. Maritime shipping container throughput in December 2003 rose by 5.5% m/m, and for 2003 as a whole rose by 8.7% y/y to 18.4 million TEUs. Transport and the hotel/restaurant sector also benefited from a sharp rebound from the SARS epidemic in Q2, when visitor arrivals plummeted. Passenger load on Singapore Airlines (SIA) has largely recovered from SARS. Visitor arrivals in December totaled 690,761, an improvement of 24% compared to that of September. Still, for the year as a whole, visitor arrivals fell by almost 20% to 6.1 million compared to that in 2002. The average hotel occupancy rate for 2003 was 67%, compared to 74% in 2002. Aside from trade-driven services sectors, financial services registered the strongest growth, thanks to strong trends in the Singapore stock market. Overall, the services sectors as a whole registered 1.0% growth in 2003.

Domestic demand remains sluggish, and government fiscal policy, while pro-growth, has contained few measures to boost consumer spending. While retail sales rose 8.5% in 2003 (versus a 1% decline in 2002), the increase stemmed from higher automobile sales. Excluding vehicle sales, retail sales actually shrank 3.0% for the year, as many Singaporeans, worried about rising unemployment, deferred spending. A spike in retail sales in

December came as consumers moved to beat an impending sales tax increase on January 1. On the business side, domestic investment spending has edged upwards.

The construction sector shrank by 8.9% y/y in Q4 03 and by 10.4% in 2003. The total value of new contracts awarded fell 31% to a 12-year low, and would have been even lower if not for Government infrastructure projects. Real estate services saw business contract in 2003, both in the face of weak demand and an oversupply of space; prime office rents fell around 16% in 2003, according to one leading real estate firm. Property analysts are hopeful that 2004 will post better results. Prices for residential real estate have stabilized, and sales of private housing are projected to rise in 2004. Office space forecast is also brighter, although a glut of about eight million sq. ft. remains.

While Singapore's small domestic base limits the extent to which domestic demand can drive growth, some analysts assert that selected government initiatives dampen demand even further, citing high forced-savings rates and measures to increase wage flexibility (which often end up cutting wages). Most agree that the limits on domestic demand are a major structural weakness.

	<u>Real GDP Growth</u> (Percentage Change)				
	<u>Q1 03</u>	<u>Q2 03</u>	<u>Q3 03</u>	<u>Q4 03</u>	<u>2003</u>
<u>Year-on-Year</u>					
Overall GDP Growth Rate	1.7	(3.9)	1.7	4.9	1.1
Goods-Producing Industries:					
Manufacturing	6.2	(6.3)	3.3	8.9	2.8
Construction	(14.9)	(10.2)	(9.6)	(8.1)	(10.7)
Services-Producing Industries	1.0	(3.0)	1.7	4.3	1.0
	<u>Q4 02</u>	<u>Q1 03</u>	<u>Q2 03</u>	<u>Q3 03</u>	<u>Q4 03</u>
<u>Quarter-on-Quarter</u>					
Overall GDP Growth Rate	(1.4)	0.8	(7.0)	16.1	11.0
Manufacturing (24%)	(4.7)	4.2	(7.0)	23.9	16.9
Construction (6%)	(13.3)	(15.1)	(0.3)	(9.4)	(6.1)
Services:	0.8	(2.0)	(8.1)	18.1	11.0
Wholesale & Retail Trade (13%)	6.6	9.2	0.6	18.4	21.1
Hotels & Restaurants (2%)	0.0	(15.4)	(67.4)	157.0	11.4
Transport & Communications (14%)	(3.9)	2.9	(34.2)	43.2	18.1
Financial Services (11%)	(5.0)	(9.8)	38.3	5.7	1.2
Business Services (14%)	1.7	(7.1)	(4.3)	3.4	4.2

Notes:

- q/q change is annualized, seasonally-adjusted

- Figures in parentheses denotes negative values

- Percentage after respective sectors denotes share of GDP (at 1995 prices, seasonally-adjusted)

For more information, please refer to the Ministry of Trade and Industry's quarterly economic survey, at:
<http://www.mti.gov.sg/>

Extensive GDP data can be found at the Department of Statistics Internet site: <http://www.singstat.gov.sg/>

The recovery is also apparent in the job market, with a significant net increase in total employment. Preliminary data suggests the unemployment (seasonally adjusted) rate among the resident work force declined to 5.0% in December 03, after peaking at 6.1% in September 03. This brings the rate back to the level of March 2003. In terms of job creation, Q4 posted a net increase of 11,500 jobs, a jump of more than ten fold over that of Q3. The

services sector contributed to the bulk of the increase, with 8,000 jobs, while the manufacturing contributed 3,500 jobs, the first increase in three years.

OUTLOOK

As a highly open and trade-dependent economy, Singapore's economic fortunes are closely linked to external economic conditions. Looking forward, key external demand factors appear positive: the U.S. recovery is moving ahead, global semiconductor demand appears robust, China is spurring growth (although much of China's demand is tied ultimately to US demand), the Japanese economy is doing better than expected, and regional economies are doing reasonably well. These trends should support continued export-led growth. In February, officials raised their forecast for CY2004 growth from a range of 3.0-5.0% y/y to 3.5-5.5%. This puts the new upper limit on a par with the consensus forecast of around 5.5% (private sector forecasts range from 5.0-6.5%). However, some analysts expect the rebound will be heavily centered in the first half of the year. Downside risks: problems in China, disease epidemics in Asia, global currency-induced economic instability.

The Purchasing Managers' Index (PMI) registered 53.1 points in February, the ninth consecutive month of expansion but also the second month of lower postings, indicative of a maturing recovery. (Note: Readings above 50 indicate expanding production activity.) The PMI in December hit a three-year high of 54.5; January's PSI registered 53.8. The electronics PMI also dipped again in February, posting 52.6, compared to 52.9 in January and 54.5 in December 2003. According to the Singapore Institute of Purchasing and Materials Management, which produces the PMI, new orders from both overseas and domestic buyers grew at a slower pace in February. The export orders sub-index is now hovering just about the 50 mark. February's PSI also showed higher inventory levels.

EDB's survey of business expectations in the manufacturing sector during Q4 03 suggested that most manufacturers are optimistic about business conditions in the first half of 2004. Those in the electronics, petroleum refining, and pharmaceuticals sectors were the most bullish. A similar survey of expectations in the services sectors also expected favorable business conditions in H1 04, with optimism highest in the financial services, transport and logistics sectors. In contrast, domestic-demand dependent sectors, such as retail trade, expected slow business, as domestic demand continues to be dampened by the uncertain employment conditions and wage restructuring programs. Singaporeans identify unemployment as among the country's most pressing concerns. Officials see unemployment continuing to fall into 2004, but warn that the full employment rate is unlikely to return to the past level of 2% unemployment, but instead range from 3-4%.

Logistics, transport, travel-related services, and financial services are all expected to provide further lift to the services sectors. Financial services should get added drive from improving sentiments in the stock market and the continuing influx of Chinese firms listing on Singapore's stock exchange. Nevertheless, Singapore's service sector, accounting for just under 65% of GDP, is expected to remain a weaker driver of growth than manufacturing, a trend that has largely held since 2001.

As for sources of growth, the U.S. remains the ultimate growth engine; prospects appear good for continued, if moderated, growth in the U.S. through the first half of 2004. Although in part ultimately reflecting demand from the U.S., China has become a demand driver of growing importance for Asian economies, including Singapore, bringing a risk that economic problems in China could have serious effects here. Exports to the EU have also been strong, helped by the depreciation of the Singapore dollar against the Euro. Longer term, Singapore's biggest challenge remains on-going structural adjustment in the face of competition from within the Southeast Asian region, as well as from China and India.

BACKGROUND

Manufacturing Performance in 2003 and Jan 2004

The manufacturing sector pulled through 2003 with a modest growth of 2.8%, after posting a decline of 1.1% in the first half of 2003. The electronics, biomedical and chemical sectors posted increases, which helped to offset declines in the precision engineering, transport engineering and general manufacturing industries. Manufacturing output in January 2004 grew by 5.8% y/y, thanks to higher production from the pharmaceutical sector; excluding that sector, output declined by 4.2% y/y. The seasonally adjusted m/m growth was 18.1%, while the three-month-moving average y/y growth posted 4.7%.

- Electronics (31.4% of manufacturing value-added): Output in 2003 increased by 5.5% compared to 2002. After a sizzling 17.2% y/y increase in December, electronics output slowed in January, down 3.6% y/y, in part due to seasonal factors (the Chinese New Year holidays).
- Biomedical sciences/Pharmaceuticals (18.8% of manufacturing value-added): This sector, which helped to bolster manufacturing sector during the electronics slump, is characterized by volatile month-to-month production swings. Example: output in December 2003 was 54.2% lower y/y, while January output rose by 48.9% y/y. For CY2003 as a whole, output increased by 8.1%.
- Chemicals (14.1% of manufacturing value-added): Output for 2003 expanded by 6.2% y/y. As with electronics, chemicals output slowed in January after registering growth in December. In this case, the January data reflected the shutdown of a crude distillation unit in a refinery.
- Precision Engineering, comprising precision modules/components and machinery/systems (14.7% of manufacturing value-added): Output in 2003 shrank 1.2% y/y, due to production declines in every quarter. Output in December rose 9.3% y/y due to higher output from electronics-supporting industries, but declined by 2.3% y/y in January, due mainly to production shutdowns during the Chinese New Year holidays.
- Transportation, comprising marine/offshore engineering, aerospace, land (9.6% of manufacturing value-added): Growth in 2003 declined by 6.4% from 2002, which had been a good year for the sector. Output rose by 5.9% y/y in December, and by 2.9% y/y in January, thanks largely to expansion in the marine/offshore engineering segment.
- General Manufacturing Industries, comprising printing, food/beverage/tobacco and others (11.3% of manufacturing value-added): Output for 2003 declined by 3.6% y/y, with most of the decrease coming in the first quarter. Yet growth in the H2 2003 was sporadic, ending with a rise of 3.8% y/y in December 2003 due to the food/beverages and printing industries.

Investment Commitments

In 2003, Singapore attracted S\$7.51 billion (US\$4.4 billion) in new commitments for manufacturing investment, slightly under the Government's target of S\$8.05 billion (US\$4.73 billion). It also represented a 17% decline from the level in 2002 and was the lowest level since 1995; the decline was sharpest for investment commitments by domestic firms. New commitments from the U.S., E.U. and Japan, which account for bulk of the commitments, totaled S\$1.5 billion (US\$870 million), the same level as that of 2002. Only the biomedical sector saw the same level of commitments as in 2002; all other sectors, including electronics, saw lower commitments. EDB has set a target of S\$8 billion (US\$4.7 billion) for 2004.

Commitments for new electronics investments accounted for 56% (S\$4.2 billion/US\$2.5 billion) of the total of S\$7.51 billion (US\$4.4 billion), while the chemicals industry accounted for 20% (S\$1.5 billion/US\$880 million). The biomedical industry contributed S\$850 million (US\$500 million). The precision engineering industry

attracted S\$498 million (US\$293 million) while the transportation industry attracted S\$206 million (US\$121 million).

(More information is posted on the Internet at: <http://www.sedb.com/>)

Trade

(Unless otherwise stated, percentage comparisons are on a Singapore Dollar, nominal basis)

China plus Hong Kong in 2003 overtook the U.S. as Singapore's second largest trading partner, after Malaysia. Trade with China/Hong Kong as a percentage of Singapore's total trade went from 12.4% in 2002 to 14.2% in 2003, while the U.S. share fell from 14.4% in 2002 to 13.6% in 2003. The EU's share rose marginally. Nonetheless, the U.S. continues to be Singapore's largest market for NODX, accounting for 18.7% of total NODX, although now challenged by the EU's 18.6% share, and with China/Hong Kong edging forward to 15.2% (versus 13.2% in 2002). The U.S. remains as Singapore's largest market for electronics, taking up nearly one-fifth of total electronics exports. Overall, Singapore's top five trading partners in 2003, accounting for 66% of total trade, were Malaysia, combined China and Hong Kong, the U.S., the E.U. and Japan, in total. (Note: Singapore was the U.S.'s 13th largest trading partner in 2003, down from 12th place in 2002).

Total trade in 2003 grew nearly 10% y/y, to US\$273 billion, on the back of strong demand from China, the U.S. and the end of the electronics downturn. Total exports increased 12.2% to US\$144.6 billion. NODX rose 15% to a record US\$ 66.5 billion (the previous high was in 2000), propelled largely by a 29% rise in non-electronics domestic exports (compared with a 10% rise in 2002). While domestic exports of electronics rose only 5%, this positive performance reversed two years of declines. Total imports rose 7.0% y/y, to US\$129.4 billion.

Trade performance was particularly strong in the last quarter of 2003 due to larger shipments of electronics (especially integrated circuits, disk drives, and telecommunications equipment), pharmaceuticals, petrochemicals, and disc media products. Total exports in Q4 03 rose by 7.0% q/q to US\$40.2 billion; NODX increased 6.6% q/q, while domestic exports of electronics increased by 8.3%. Total imports in Q4 03 grew by 12.2% q/q to reach US\$36.9 billion. The growth momentum slowed in January, although analysts ascribe this in part to the shorter working month in January on account of the Chinese New Year holiday.

	<u>Electronics Trade</u> (Percent Share)		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Electronics Exports:			
As a percentage of Total Exports	52.6	52.1	49.7
To U.S. as percentage of Total Exports	11.6	10.9	9.7
To U.S. as percentage of NODX	26.2	24.7	21.5
To U.S. as percentage of Electronics Exports	22.1	20.9	19.6
Electronics NODX as percentage of NODX	61.0	57.9	52.9

Source: IE Singapore (formerly Trade Development Board)

	<u>Trade Comparison between 2002 and 2003</u> (Nominal Value, US\$ Billion)		
	<u>2002</u>	<u>2003</u>	(S\$ Value) % Change <u>2003/2002</u>
Total Exports	126.0	144.6	12.2
Total Imports	120.0	129.4	7.0
Total Trade	246.0	273.0	9.6
NODX	55.5	65.3	15.1
NODX Electronics	32.1	34.6	5.1
Imports from U.S.	16.6	17.9	5.2
Exports to U.S.	18.5	19.3	1.6
NODX to U.S.	12.0	12.2	(0.7)
Imports from Malaysia	21.4	21.6	(1.1)
Exports to Malaysia	22.0	22.9	1.8
NODX to Malaysia	6.2	6.3	(1.6)
Imports from China & Hong Kong	12.5	14.2	17.8
Exports to China & Hong Kong	18.5	24.6	30.5
NODX to China & Hong Kong	7.4	10.0	32.7
Imports from E.U.	13.9	16.0	12.8
Exports to E.U.	15.8	19.3	19.5
NODX to E.U.	9.0	12.1	32.0
Imports from Japan	14.7	14.3	2.8
Exports to Japan	9.0	9.7	5.6

NODX to Japan

5.0

5.3

10.1

Trade
(% change *, nominal S\$)

	<u>Q4 02*</u>	<u>Q1 03*</u>	<u>Q2 03*</u>	<u>Q3 03*</u>	<u>Q3 03*</u>	<u>Oct 03*</u>
Total Exports	1.9	0.7	0.4	7.2	7.0	(8.9)
NODX	3.1	1.5	0.6	7.6	6.6	(7.1)
NODX Electronics	1.3	(4.4)	(6.4)	14.4	8.3	(12.3)
Exports to U.S.	(5.0)	(4.9)	8.4	(2.7)	3.3	(10.6)
NODX to U.S.	(1.0)	(7.2)	6.2	(7.5)	4.0	(12.0)
Exports to Malaysia	(9.8)	(3.9)	9.0	6.4	(0.4)	(9.5)
NODX to Malaysia	(8.7)	(7.5)	6.7	11.5	2.2	(11.1)
Exports to E.U.	8.3	4.7	(2.1)	12.9	3.9	10.5
NODX to E.U.	11.2	8.6	2.2	11.4	3.4	23.6
Exports to Japan	6.6	(4.8)	1.0	2.7	17.4	(13.0)
NODX to Japan	3.8	5.5	(1.9)	7.2	5.6	(9.9)
Exports to China & Hong Kong	14.0	2.4	(7.3)	11.5	11.1	(21.1)
NODX To China & Hong Kong	10.2	2.5	0.4	18.3	10.0	(22.3)
Total Imports	(0.1)	(1.5)	2.1	4.1	12.2	(6.3)
Imports from U.S.	1.9	9.8	(8.8)	9.3	(0.1)	(3.6)

() - Denotes negative values

* - Percent change from previous quarter

** - Percent change from previous month

Note: Monthly trade data for Singapore is posted on the Internet at: <http://www.iesingapore.com/>